

CITY OF GLADBROOK

**Independent Auditors' Reports
Basic Financial Statements
Supplementary and Other Information
Schedule of Findings**

June 30, 2014

CITY OF GLADBROOK

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CITY OF GLADBROOK

Officials

(Before January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Keith Sash	Mayor	Jan 2016
Roger Luehring	Mayor Pro Tem	Jan 2014
Sam Goos	Council Member	Jan 2014
Betty Dahms	Council Member	Jan 2014
Dan DeWitt	Council Member	Jan 2016
Trudi Scott	Council Member	Jan 2016
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite

(After January 2014)

Keith Sash	Mayor	Jan 2016
Roger Luehring	Mayor Pro Tem	Jan 2018
Dan DeWitt	Council Member	Jan 2016
Trudi Scott	Council Member	Jan 2016
Ben Goos	Council Member	Jan 2018
Betty Dahms	Council Member	Jan 2018
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 21 through 23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2014 on our consideration of the City of Gladbrook's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Gladbrook's internal control over financial reporting and compliance.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gladbrook provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 28.6%, or approximately \$245,500, from fiscal year 2013 to fiscal year 2014. Loan proceeds decreased approximately \$140,000 and capital grants, contributions and restricted interest decreased approximately \$129,000.
- Disbursements decreased 18.6%, or approximately \$135,000, in fiscal year 2014 from fiscal year 2013 in the governmental activities. Capital projects decreased approximately \$103,500, public works decreased approximately \$71,000 and public safety increased approximately \$21,500.
- The City's total cash basis net position increased less than 1% or approximately \$8,700 from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$13,600 and the cash basis net position of the business type activities decreased by approximately \$5,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, the City Center movie theater and Matchstick Marvels museum and the Gladbrook Fitness Center. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales and Service Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, for the operation of the City's movie theater and Matchstick Marvels museum and for the operation of the Gladbrook Fitness Center. These funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$868,988 to \$882,587. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program Receipts:		
Charges for service	\$ 34,860	38,383
Operating grants, contributions and restricted interest	153,158	143,286
Capital grants, contributions and restricted interest	42,486	171,290
General Receipts:		
Property tax	304,271	279,652
Local option sales tax	59,211	68,205
Franchise tax	5,732	5,784
Unrestricted interest on investments	897	2,230
Loan proceeds	5,000	144,718
Other general receipts	6,112	3,639
Total receipts	<u>611,727</u>	<u>857,187</u>
Disbursements:		
Public safety	140,230	118,719
Public works	100,953	172,028
Culture and recreation	57,042	55,375
Community and economic development	16,884	3,037
General government	79,415	76,363
Debt service	93,725	93,970
Capital projects	100,012	203,497
Total disbursements	<u>588,261</u>	<u>722,989</u>
Change in cash basis net position before transfers	23,466	134,198
Transfers, net	<u>(9,867)</u>	<u>(194,000)</u>
Change in cash basis net position	13,599	(59,802)
Cash basis net position beginning of year	<u>868,988</u>	<u>928,790</u>
Cash basis net position end of year	<u>\$ 882,587</u>	<u>868,988</u>

The City's total receipts for governmental activities decreased by 28.6% or approximately \$245,500. The total cost of all programs and services decreased by approximately \$135,000, or 18.6%, with no new programs added.

The decrease in receipts was primarily the result of the completion of the water tower and water main replacement projects in fiscal year 2013. The City received \$152,745 from the State of Iowa through the Community Development Block grant program and \$144,718 in capital loan note proceeds in fiscal year 2013 for these projects. These amounts were reflected in the capital grants and contributions and loan proceeds.

The cost of all governmental activities this year was approximately \$588,000 compared to approximately \$723,000 last year. However, as shown on the Statement of Activities and Net Position on pages 10-11, the amount taxpayers ultimately financed for these activities was approximately \$358,000 because some of the cost was paid by those directly benefited from the programs (\$34,860) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$195,644). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2014 from approximately \$353,000 to approximately \$230,500. The City paid for the remaining "public benefit" portion of governmental activities (\$358,000) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and loan proceeds.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program Receipts:		
Charges for service:		
Water	\$ 172,987	178,370
Sewer	133,927	136,389
Concessions and admissions	115,114	109,452
Memberships	36,203	36,719
General Receipts:		
Unrestricted interest on investments	428	424
Contributions	5,074	6,155
Land rent	2,000	2,000
Total receipts	<u>465,733</u>	<u>469,509</u>
Disbursements:		
Water	179,986	163,387
Sewer	124,028	89,894
City center	116,603	115,734
Fitness center	59,912	28,605
Total disbursements	<u>480,529</u>	<u>397,620</u>
Change in cash basis net position before transfers	(14,796)	71,889
Transfers, net	<u>9,867</u>	<u>194,000</u>
Change in cash basis net position	(4,929)	265,889
Cash basis net position beginning of year	<u>655,851</u>	<u>389,962</u>
Cash basis net position end of year	<u>\$ 650,922</u>	<u>655,851</u>

Total business type activities receipts for the fiscal year were approximately \$466,000 compared to approximately \$470,000 last year. Total disbursements for the fiscal year increased 20.8% to approximately \$480,500.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gladbrook completed the year, its governmental funds reported a combined fund balance of \$882,587, an increase of \$13,599 from last year's total of \$868,988. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance decreased \$87,046 from the prior year to \$692,977. The decrease is due to transferring funds to capital projects to fund the construction of the new fire and ambulance station.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$34,494 to \$87,106 during the fiscal year. The increase was primarily due to a decrease in the amount expended for street construction and maintenance.
- The Special Revenue, Local Option Sales and Service Tax Fund cash balance remained approximately the same from 2013. In 2014 the City transferred the local option sales tax and service revenue to the debt service fund to pay a portion of debt and to the general fund for property tax relief.
- The Debt Service Fund cash balance remained approximately the same from 2013. This fund is used to pay off general obligation bonds and notes. In 2014, the City transferred funds from the Local Option Sales Tax and Service Fund to pay a portion of the debt.
- The Capital Projects Fund was used to account for the construction of a new fire and ambulance building. This project is expected to be completed in fiscal year 2015.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance remained virtually unchanged from the prior year.
- The Sewer Fund cash balance increased by \$11,991 to \$317,364, primarily due to a decrease in the amount expended for sewer revenue note payments.
- The City Center cash balance increased by \$1,885 to \$2,414 due primarily to an increase in concession revenue and a decrease in salaries.
- The Fitness Center cash balance decreased by \$21,825 to \$73,095 due primarily to the purchase of several new pieces of fitness equipment.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended their budget once. The amendment was approved on May 12, 2014 and resulted in an increase in operating disbursements of \$824,655. The amendment was made to provide for additional disbursements in certain City departments, including the construction costs for the new fire and ambulance building.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$1,196,000 in bonds and other long-term debt, compared to \$1,316,661 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2014	2013
General obligation note	\$ 260,000	352,500
Revenue notes	936,000	972,411
Total	\$ 1,196,000	1,324,911

Debt decreased as a result of required annual bond payments.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$260,000 is below its constitutional debt limit of \$1,993,833. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Gladbrook's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities.

The City began construction in fiscal year 2014 on a new \$1,035,000 fire and ambulance building that is expected to be completed in fiscal year 2015. The City has committed \$333,000 to the project with the remaining cost of the project to be paid for through contributions. In fiscal year 2015 the City plans on replacing the Grand Street Bridge at an estimated cost of \$250,000 with \$50,000 being contributed by the City and \$200,000 being funded through the federal bridge replacement program. The City is also anticipating beginning a lagoon UV sanitation upgrade project in a fiscal year 2015 with a projected cost of \$1,350,000. The City is applying for a \$300,000 Community Development Block Grant and a State Revolving loan to fund this project.

The City's property tax base decreased for fiscal year 2015 and property tax rates increased slightly to help cover the decline in valuations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori Bearden, City Clerk, at 319 2nd Street, Gladbrook, Iowa 50635.

CITY OF GLADBROOK
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 140,230	27,891	48,811	22,514
Public works	100,953	420	94,362	872
Culture and recreation	57,042	5,089	9,755	-
Community and economic development	16,884	-	230	-
General government	79,415	1,460	-	-
Debt service	93,725	-	-	-
Capital projects	100,012	-	-	19,100
Total governmental activities	<u>588,261</u>	<u>34,860</u>	<u>153,158</u>	<u>42,486</u>
Business type activities:				
Water	179,986	172,987	152	-
Sewer	124,028	133,927	2,092	-
City center	116,603	115,114	3,374	-
Fitness center	59,912	36,203	1,884	-
Total business type activities	<u>480,529</u>	<u>458,231</u>	<u>7,502</u>	<u>-</u>
Total	<u>\$ 1,068,790</u>	<u>493,091</u>	<u>160,660</u>	<u>42,486</u>
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Franchise tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net position				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
--	--	--

Governmental Activities	Business Type Activities	Total
(41,014)	-	(41,014)
(5,299)	-	(5,299)
(42,198)	-	(42,198)
(16,654)	-	(16,654)
(77,955)	-	(77,955)
(93,725)	-	(93,725)
(80,912)	-	(80,912)
(357,757)	-	(357,757)

-	(6,847)	(6,847)
-	11,991	11,991
-	1,885	1,885
-	(21,825)	(21,825)
-	(14,796)	(14,796)
(357,757)	(14,796)	(372,553)

246,830	-	246,830
57,441	-	57,441
59,211	-	59,211
5,732	-	5,732
897	-	897
5,000	-	5,000
6,112	-	6,112
(9,867)	9,867	-
371,356	9,867	381,223
13,599	(4,929)	8,670
868,988	655,851	1,524,839
\$ 882,587	650,922	1,533,509

\$ 87,106	-	87,106
-	71,080	71,080
102,504	-	102,504
692,977	579,842	1,272,819
\$ 882,587	650,922	1,533,509

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2014

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Capital Projects
Receipts:				
Property tax	\$ 206,636	-	-	-
Other city tax	5,115	-	59,211	-
Intergovernmental	53,655	94,362	-	-
Licenses and permits	255	-	-	-
Charges for service	31,903	-	-	-
Use of money and property	1,662	-	-	-
Special assessments	171	701	-	-
Miscellaneous	36,218	1,245	-	19,100
Total receipts	335,615	96,308	59,211	19,100
Disbursements:				
Operating:				
Public safety	139,632	-	-	-
Public works	22,770	78,183	-	-
Culture and recreation	54,999	-	-	-
Community and economic and development	16,884	-	-	-
General government	79,415	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	100,012
Total disbursements	313,700	78,183	-	100,012
Excess (deficiency) of receipts over (under) disbursements	21,915	18,125	59,211	(80,912)
Other financing sources (uses):				
Loan proceeds	-	-	-	5,000
Operating transfers in	54,637	16,369	-	150,000
Operating transfers out	(163,000)	-	(59,211)	(9,867)
Total other financing sources (uses)	(108,363)	16,369	(59,211)	145,133
Net change in cash balances	(86,448)	34,494	-	64,221
Cash balances beginning of year	780,023	52,612	-	20,813
Cash balances end of year	\$ 693,575	87,106	-	85,034
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	87,106	-	-
Other purposes	-	-	-	85,034
Assigned for:				
Fire equipment	88,855	-	-	-
Ambulance	119,632	-	-	-
Museum	1,399	-	-	-
Recreational trust	3,040	-	-	-
Unassigned	480,649	-	-	-
Total cash basis fund balances	\$ 693,575	87,106	-	85,034

See notes to financial statements.

Debt Service	Nonmajor	Total
56,037	34,224	296,897
1,404	855	66,585
-	945	148,962
-	-	255
-	-	31,903
-	121	1,783
-	-	872
-	2,907	59,470
57,441	39,052	606,727
-	-	140,230
-	-	100,953
-	2,043	57,042
-	-	16,884
-	-	79,415
93,725	-	93,725
-	-	100,012
93,725	2,043	588,261
(36,284)	37,009	18,466
-	-	5,000
36,284	-	257,290
-	(35,079)	(267,157)
36,284	(35,079)	(4,867)
-	1,930	13,599
-	15,540	868,988
-	17,470	882,587
-	-	87,106
-	17,470	102,504
-	-	88,855
-	-	119,632
-	-	1,399
-	-	3,040
-	-	480,051
-	17,470	882,587

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2014

	Enterprise				
	Water	Sewer	City Center	Fitness Center	Total
Operating receipts:					
Charges for service	\$ 172,987	133,927	115,114	36,203	458,231
Total operating receipts	172,987	133,927	115,114	36,203	458,231
Operating disbursements:					
Business type activities	137,791	96,301	116,603	59,912	410,607
Total operating disbursements	137,791	96,301	116,603	59,912	410,607
Excess (deficiency) of operating receipts over (under) operating disbursements	35,196	37,626	(1,489)	(23,709)	47,624
Non-operating receipts (disbursements):					
Contributions	-	-	3,374	1,700	5,074
Interest on investments	152	92	-	184	428
Land rent	-	2,000	-	-	2,000
Debt service	(42,195)	(27,727)	-	-	(69,922)
Net non-operating receipts (disbursements)	(42,043)	(25,635)	3,374	1,884	(62,420)
Excess (deficiency) of receipts over (under) disbursements	(6,847)	11,991	1,885	(21,825)	(14,796)
Other financing sources:					
Operating transfers in	9,867	-	-	-	9,867
Total other financing sources	9,867	-	-	-	9,867
Net change in cash balances	3,020	11,991	1,885	(21,825)	(4,929)
Cash balances beginning of year	255,029	305,373	529	94,920	655,851
Cash balances end of year	\$ 258,049	317,364	2,414	73,095	650,922
Cash Basis Fund Balances					
Restricted for debt service	\$ 40,410	30,670	-	-	71,080
Unrestricted	217,639	286,694	2,414	73,095	579,842
Total cash basis fund balances	\$ 258,049	317,364	2,414	73,095	650,922

CITY OF GLADBROOK

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies

The City of Gladbrook is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Gladbrook has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Gladbrook has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Solid Waste Disposal Commission, Tama County Joint E911 Service Board, Region Six Planning Commission and Tama County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

Local Option Sales and Services Tax Fund is used to account for the collection and use of the local option sales and services tax.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, City Center Fund accounts for the operation and maintenance of the City's movie theater and Matchstick Marvels museum.

The Enterprise, Fitness Center Fund accounts for the operation and maintenance of the City's fitness center.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Governmental Cash Basis Fund Balances (continued):

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal law or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Note 3 – Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$11,552, \$11,383 and 10,784, respectively, equal to the required contributions for each year.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2014

Note 4 – Notes Payable

Annual debt service requirements to maturity for a sewer revenue capital loan note, a rural economic development loan and a water revenue capital loan note are as follows:

Year Ending June 30,	Sewer Revenue Capital Loan Note		Rural Economic Development Loan		Water Revenue Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 25,000	3,308	40,000	-	18,000	22,410	83,000	25,718
2016	25,000	2,870	40,000	-	18,000	21,870	83,000	24,740
2017	26,000	2,433	40,000	-	19,000	21,330	85,000	23,763
2018	27,000	1,978	40,000	-	19,000	20,760	86,000	22,738
2019	28,000	1,505	40,000	-	20,000	20,190	88,000	21,695
2020-2024	58,000	1,523	60,000	-	111,000	91,530	229,000	93,053
2025-2029	-	-	-	-	130,000	73,800	130,000	73,800
2030-2034	-	-	-	-	152,000	52,890	152,000	52,890
2035-2039	-	-	-	-	180,000	28,500	180,000	28,500
2040-2041	-	-	-	-	80,000	3,630	80,000	3,630
Total	\$ 189,000	13,617	260,000	-	747,000	356,910	1,196,000	370,527

The City has pledged future sewer and water customer receipts, net of specified operating disbursements, to repay \$189,000 of a sewer revenue note and \$747,000 of a water revenue note. Proceeds from the notes provided a new sanitary sewer system and a new water tower and water main lines. The notes are payable solely from customer net receipts and are payable through 2041.

Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2014 was \$2,976, primarily relating to the General Fund. This liability has been computed based on rates of pay in effect at June 30, 2014.

Note 6 – Risk Management

The City of Gladbrook is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2014

Note 7 – Related Party Transactions

The City had business transactions between the City and City officials totaling \$45,622 during the year ended June 30, 2014.

Note 8 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 36,284
General	Special Revenue:	
	Local Option Sales Tax	22,927
	Emergency Services	6,470
	Employee Benefits	25,240
		<u>54,637</u>
Capital Projects	General	150,000
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	3,369
	General	13,000
		<u>16,369</u>
Enterprise:		
Water	Capital Projects	<u>9,867</u>
Total		<u>\$ 267,157</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 9 – Commitment

The City entered into a contract for the construction of a new fire and ambulance building. The total cost of the contract is \$906,471 and the City has a remaining balance due on the contract of \$883,809 at June 30, 2014.

Note 10 – Date of Management Evaluation

The City has evaluated subsequent events through September 9, 2014, the date which financial statements were available to be issued.

Other Information

CITY OF GLADBROOK
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 296,897	-
Other city tax	66,585	-
Intergovernmental	148,962	-
Licenses and permits	255	-
Charges for service	31,903	458,231
Use of money and property	1,783	2,428
Special assessments	872	-
Miscellaneous	59,470	5,074
Total receipts	<u>606,727</u>	<u>465,733</u>
Disbursements:		
Public safety	140,230	-
Public works	100,953	-
Health and social services	-	-
Culture and recreation	57,042	-
Community and economic development	16,884	-
General government	79,415	-
Debt service	93,725	-
Capital projects	100,012	-
Business type activities	-	480,529
Total disbursements	<u>588,261</u>	<u>480,529</u>
Excess (deficiency) of receipts over (under) disbursements	18,466	(14,796)
Other financing sources, net	<u>(4,867)</u>	<u>9,867</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	13,599	(4,929)
Balances beginning of year	<u>868,988</u>	<u>655,851</u>
Balances end of year	<u>\$ 882,587</u>	<u>650,922</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
296,897	296,152	296,152	745
66,585	6,998	61,998	4,587
148,962	133,662	138,662	10,300
255	56,400	1,400	(1,145)
490,134	474,552	476,052	14,082
4,211	3,900	3,900	311
872	-	-	872
64,544	8,981	496,481	(431,937)
1,072,460	980,645	1,474,645	(402,185)
140,230	160,250	181,750	(41,520)
100,953	141,904	141,904	(40,951)
-	1,466	1,466	(1,466)
57,042	54,462	62,787	(5,745)
16,884	13,000	28,000	(11,116)
79,415	71,651	81,651	(2,236)
93,725	94,200	94,200	(475)
100,012	-	603,500	(503,488)
480,529	410,308	576,638	(96,109)
1,068,790	947,241	1,771,896	(703,106)
3,670	33,404	(297,251)	300,921
5,000	-	-	5,000
8,670	33,404	(297,251)	305,921
1,524,839	2,982,572	2,982,572	(1,457,733)
1,533,509	3,015,976	2,685,321	(1,151,812)

CITY OF GLADBROOK
Notes to Other Information – Budgetary Reporting
June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$824,655. The budget amendment is reflected in the final budgeted amounts.

Supplementary Information

CITY OF GLADBROOK
Schedule of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2014

	Special Revenue		
	Urban Renewal Tax Increment	Employee Benefits	Emergency Services
Receipts:			
Property tax	\$ -	27,912	6,312
Other city tax	-	697	158
Intergovernmental	-	-	-
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total receipts	-	28,609	6,470
Disbursements:			
Operating:			
Culture and recreation	-	-	-
Total disbursements	-	-	-
Excess of receipts over disbursements	-	28,609	6,470
Other financing uses:			
Operating transfers out	-	(28,609)	(6,470)
Change in cash balance	-	-	-
Cash balances beginning of year	187	-	-
Cash balances end of year	\$ 187	-	-
Cash Basis Fund Balances			
Restricted for other purposes	\$ 187	-	-
Total cash basis fund balances	\$ 187	-	-

Library	Total
-	34,224
-	855
945	945
121	121
2,907	2,907
3,973	39,052

2,043	2,043
2,043	2,043
1,930	37,009

-	(35,079)
1,930	1,930
15,353	15,540
17,283	17,470

17,283	17,470
17,283	17,470

CITY OF GLADBROOK
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Aug 1, 2004	3.95 %	\$ 413,643
Rural Economic Development loan	Nov 22, 2010	0.00	360,000
Water revenue capital loan note:			
Water improvement	Oct 5, 2011	3.00 %	\$ 798,411
Sewer revenue capital loan note:			
Sewer improvement	Sept 15, 2001	3.00 %	\$ 706,000

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	52,500	-	52,500	-	1,400	-
	300,000	-	40,000	260,000	-	-
\$	352,500	-	92,500	260,000	1,400	-
<hr/>						
\$	759,411	5,000	17,411	747,000	22,872	-
<hr/>						
\$	213,000	-	24,000	189,000	3,728	-
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CITY OF GLADBROOK
Bond and Note Maturities
June 30, 2014

Year Ending June 30,	Revenue Note Sewer Improvement Issued Sept 15, 2001		Rural Economic Development Loan Issued Nov 22, 2010		Revenue Note Water Improvement Issued Oct 5, 2011		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2015	3.00 %	\$ 25,000	0.00 %	\$ 40,000	3.00 %	\$ 18,000	83,000
2016	3.00	25,000	0.00	40,000	3.00	18,000	83,000
2017	3.00	26,000	0.00	40,000	3.00	19,000	85,000
2018	3.00	27,000	0.00	40,000	3.00	19,000	86,000
2019	3.00	28,000	0.00	40,000	3.00	20,000	88,000
2020	3.00	29,000	0.00	40,000	3.00	21,000	90,000
2021	3.00	29,000	0.00	20,000	3.00	21,000	70,000
2022		-		-	3.00	22,000	22,000
2023		-		-	3.00	23,000	23,000
2024		-		-	3.00	24,000	24,000
2025		-		-	3.00	24,000	24,000
2026		-		-	3.00	25,000	25,000
2027		-		-	3.00	26,000	26,000
2028		-		-	3.00	27,000	27,000
2029		-		-	3.00	28,000	28,000
2030		-		-	3.00	29,000	29,000
2031		-		-	3.00	30,000	30,000
2032		-		-	3.00	30,000	30,000
2033		-		-	3.00	31,000	31,000
2034		-		-	3.00	32,000	32,000
2035		-		-	3.00	34,000	34,000
2036		-		-	3.00	35,000	35,000
2037		-		-	3.00	36,000	36,000
2038		-		-	3.00	37,000	37,000
2039		-		-	3.00	38,000	38,000
2040		-		-	3.00	39,000	39,000
2041		-		-	3.00	41,000	41,000
Total		\$ 189,000		\$ 260,000		\$ 747,000	1,196,000

CITY OF GLADBROOK
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Ten Years

	2014	2013	2012	2011
Receipts:				
Property tax	\$ 296,897	272,463	256,259	281,095
Tax increment financing	-	187	15,574	19,402
Other city tax	66,585	75,207	56,099	67,317
Intergovernmental	148,962	285,907	422,445	205,496
Licenses and permits	255	210	150	785
Charges for service	31,903	31,718	46,405	32,610
Use of money and property	1,783	3,599	3,003	5,864
Special assessments	872	4,733	1,211	1,059
Miscellaneous	59,470	38,445	125,310	46,442
Total	\$ 606,727	712,469	926,456	660,070
Disbursements:				
Operating:				
Public safety	\$ 140,230	118,719	141,955	126,910
Public works	100,953	172,028	110,134	110,478
Culture and recreation	57,042	55,375	46,874	48,313
Community and economic development	16,884	3,037	3,847	8,244
General government	79,415	76,363	80,726	70,232
Debt service	93,725	93,970	74,113	304,930
Capital projects	100,012	203,497	1,175,596	183,818
Total	\$ 588,261	722,989	1,633,245	852,925

2010	2009	2008	2007	2006	2005
217,790	224,783	216,960	212,379	194,340	192,653
17,435	17,422	19,773	24,578	23,773	42,104
65,949	65,650	64,704	64,725	52,884	43,307
159,381	149,883	532,978	145,859	125,569	126,178
515	701	260	410	758	893
42,671	40,164	44,710	38,486	36,477	23,166
4,575	11,058	16,357	13,873	11,503	6,957
2,684	573	3,423	1,620	-	15,127
109,300	35,869	25,378	14,375	13,784	26,523
620,300	546,103	924,543	516,305	459,088	476,908
116,411	174,666	172,034	165,539	109,181	88,359
117,911	126,280	159,858	108,031	97,212	99,973
50,112	49,445	51,767	46,052	41,642	56,019
7,353	32,868	23,766	25,718	14,379	20,572
68,726	66,702	56,457	51,588	51,783	56,019
102,860	70,613	70,741	70,819	70,909	87,020
338,345	20,225	375,298	-	-	24,251
801,718	540,799	909,921	467,747	385,106	432,213



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 9, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Gladbrook's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladbrook's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Gladbrook's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Gladbrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Gladbrook's Responses to Findings

The City of Gladbrook's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Gladbrook's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Gladbrook during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 9, 2014

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2014

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2014

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-14 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting.
- (2) Disbursements - check writing, signing, and reconciling.
- (3) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties, the City should utilize administrative personnel to provide additional internal control through review of financial transactions and reports.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members. The city is exploring the possibility of hiring a part-time person that could perform some of these duties.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-14 Certified Budget – Disbursements during the year ended June 30, 2014, did not exceed the amounts budgeted.

III-B-14 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF GLADBROOK

Schedule of Findings

Year ended June 30, 2014

Part III: Other Findings Related to Required Statutory Reporting (continued):

III-D-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Roger Luehring, Council Member and Mike Bearden, spouse of the City Clerk Shareholders in Clapsaddle-Garber and Associates	Engineering services	<u>\$43,457</u>
Ben Goos, Council Member and shareholder in Goos Implement, father owns Gladbrook Auto Supply and Gladbrook Tire Center	Repairs and maintenance, supplies	<u>\$ 3,458</u>
Dan DeWitt, Council Member, father owns DeWitt Refrigeration	Repairs and maintenance	<u>\$ 122</u>

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with De Witt Refrigeration do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year. The transactions with Clapsaddle-Garber and Associates do not appear to represent a conflict of interest since they were entered into through a competitive selection process in accordance with Chapter 362.5(4) of the Code of Iowa. The transactions with Goos Implement, Gladbrook Auto Supply and Gladbrook Tire Center may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The transactions with Goos Implement, Gladbrook Auto Supply and Gladbrook Tire Center represent purchases for supplies and routine repairs and maintenance on city equipment. As these are locally owned businesses and the only businesses in the city that provide these services the City does not believe these transactions represent a conflict of interest.

Conclusion – Response accepted.

III-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2014

III-F-14 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City Council went into closed session on May 12, 2014. However, the minutes record did not document the roll call vote of each council member as required by Chapter 21 of the Code of Iowa, commonly known as the open meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – We will document the roll call vote when going into and out of closed sessions in the minutes.

Conclusion – Response accepted.

III-G-14 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-14 Revenue Notes – The City was in compliance with all applicable revenue note provisions.

CITY OF GLADBROOK

Staff

This audit was performed by:

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Marshalltown, IA 50158**

Personnel:

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